

Message Text

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42

ACTION NEA-10

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 1668

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

UNCLAS NEW DELHI 13601

E.O. 11652: N/A

TAGS: EFIN IN

SUBJECT: WILL ANOTHER ATTEMPT AT DIMINISHING TAX EVASION WORK?

SUMMARY. THE GOI HAS ANNOUNCED A SCHEME THAT WILL ALLOW THE
VOLUNTARY DECLARATION OF BLACK MONEY AT REDUCED INCOME TAX RATES.
END SUMMARY.

1. EFFECTIVE OCTOBER 8, A PRESIDENTIAL ORDINANCE PROVIDES THAT
PERSONS WITH UNACCOUNTED
INCOME AND WEALTH CAN VOLUNTARILY DECLARE (BEFORE THE END OF 1975)
THEIR BLACK MONEY, PAY TAXES AT "REASONABLE"
RATES (LOWER THAN THOSE IN THE INCOME TAX CODE), AND ESCAPE ANY
PUBLICITY OR PENALTIES. THE TAX RATES ON ALL BLACK INCOME,
REGARDLESS WHEN EARNED, ARE 25 PERCENT ON THE FIRST 25,000
RUPEES, 40 PERCENT ON THE NEXT 25,000 RUPEES, AND 60 PERCENT ON
THE BALANCE (IN CONTRAST TO A MARGINAL TAX RATE OF 77 PERCENT
ON "WHITE" INCOME OVER 70,000 RUPEES PER YEAR). THE "REASONABLE"
TAX RATE FOR ALL COMPANIES IS A FLAT 60 PERCENT. ACCORDING TO THE
ORDINANCE, ONCE SUCH INCOME IS VOLUNTARILY DECLARED, IT CANNOT
BE TAXED AGAIN.

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2. UNDER THE SCHEME BLACK MONEY EARNERS WILL HAVE TO INVEST FIVE PERCENT OF THEIR INCOME AND 2.5 PERCENT OF THEIR WEALTH IN GOVERNMENT SECURITIES (UNSPECIFIED). THE GOI WILL THEN UTILIZE THESE PROCEEDS FOR HIGH PRIORITY SOCIAL PROJECTS (E.G. LOW INCOME HOUSING). TAX PAYMENTS GENERALLY HAVE TO BE MADE ALL AT ONCE, ALTHOUGH IN SPECIAL CIRCUMSTANCES INDIVIDUALS WILL BE ALLOWED A MAXIMUM GRACE PERIOD UP TO MARCH 31, 1977.

3. INDIVIDUALS NOT QUALIFYING UNDER THE ORDINANCE ARE SMUGGLERS AND FOREIGN EXCHANGE RACKETEERS WHO HAVE BEEN DETAINED OR AGAINST WHOM DETENTION ORDERS HAVE BEEN ISSUED AS WELL AS PERSONS WHOSE ASSETS HAVE BEEN SEIZED IN INCOME TAX RAIDS ON THEIR HOMES AND APARTMENTS.

4. IN ANOTHER DEVELOPMENT MINISTER OF STATE FOR FINANCE MUKHERJEE ANNOUNCED THAT THE PASSPORTS OF OVER 100 INDIANS LIVING ABROAD WILL BE IMPOUNDED BECAUSE OF THEIR ALLEGED INVOLVEMENT IN SMUGGLING. HE SAID THAT LEGISLATIVE MEASURES TO SEIZE THE PROPERTY OF SMUGGLERS WERE ALMOST COMPLETED. HE ALSO NOTED THAT SMUGGLING ACTIVITIES HAD LESSENED CONSIDERABLY AND THAT THE OPEN DISPLAY OF SMUGGLED GOODS IN CITIES HAD ENDED.

5. COMMENT: A SIMILAR VOLUNTARY INCOME DISCLOSURE SCHEME IN 1965 PRODUCED FEW NOTABLE RESULTS. ALTHOUGH THE CHANGED POLITICAL SITUATION NOW MAY MAKE SOME DIFFERENCE, IT IS UNLIKELY THAT MANY INDIANS WILL WILLINGLY DISCLOSE THEIR ILL-GOTTEN GAINS. SCHNEIDER

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